Report on Examination

of the

Golden Security Insurance Company

Chattanooga, Tennessee

as of

December 31, 2004

Department of Commerce and Insurance

State of Tennessee

Nashville, Tennessee

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Company Examinations

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Table of Contents

Introduction 1

Scope of Examination 2

Status of Prior Examination Findings 3

Company History 3

Charter and Bylaws 6

- Charter 6
- Bylaws 6

Management and Control 7

- Conflict of Interest Policy 8
- Pecuniary Interest 9

Corporate Records 9

Fidelity Bond and Other Insurance 9

Territory 10

Plan of Operation 10

Market Conduct Activities 11

- Advertising 11
- Underwriting: 11
- Forms 11
- Policyholder Complaints 11
- Privacy 11
- Anti-Fraud Plan 11
- Claims 11

Mortality and Loss Experience 11

Reinsurance 12

Retirement Plan and Other Insurance 13

Agreements with Parent, Subsidiaries and Affiliates 13

Litigation, Contingent Liabilities and Regulatory Action 13

Statutory Deposits 14

Dividend to Stockholder 14

Accounts and Records 14

Subsequent Events 15

Financial Statement 16

- Assets 16
- Liabilities, Surplus and Other Funds 17
- Summary of Operations 18
- Capital and Surplus Account 19

Analysis of Changes in Financial Statement and Comments Resulting From Examination 20

Comments 20

- Statutory Deposits 20
- Aviation Policy 20

Recommendations 20

- Reinsurance 20
- Intercompany Tax Allocation Agreement 20
- Management and Service Agreement 21
- Letter of Representation 21

Conclusion 22

Examination Affidavit 23

Addendum - Organizational Chart 24

Chattanooga, TN
July 8, 2005

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Commissioner of Commerce and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243

Honorable Alfred W. Gross, Chairman
Financial Condition (E) Committee, NAIC
Commissioner of Insurance,
Virginia Bureau of Insurance
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1300 East Main Street
Richmond, Virginia 23219

Honorable Walter Bell
Secretary, Southeastern Zone, NAIC
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 1700
Montgomery, Alabama 36104

Commissioners:

Pursuant to your instructions and in accordance with applicable Tennessee statutes, rules and regulations and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review was made of the condition and affairs of

Golden Security Insurance Company
Chattanooga, Tennessee

hereinafter referred to as the "Company", and a report thereon is submitted as follows:

Introduction

This examination was arranged by the Department of Commerce and Insurance of the State of Tennessee under rules promulgated by the NAIC. It was commenced on April 18, 2005, and was conducted by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee.

Scope of Examination

The period covered hereunder is from December 31, 2000, the date of the last examination, to the close of business on December 31, 2004, the date of this examination. The examination was conducted at the office of the Company's ultimate parent, Blue Cross BlueShield of Tennessee, Inc. (BCBST), located at 801 Pine Street, Chattanooga, Tennessee, 37402.

The Company keeps its charter, bylaws, corporate minutes, policy files, correspondence files, bank statements, investment records, reinsurance contracts, copies of claim runs and accounting records at its home office located at 801 Pine Street, Chattanooga, Tennessee, 37402.

During the course of examination the assets of the Company were verified, and liabilities were determined or estimated as of December 31, 2004, in accordance with procedures as prescribed by the applicable statutes, rules and regulations and the accounting practices and procedures as promulgated by the NAIC. The Company's financial solvency and the degree thereof were thus established. Test checks, covering selected periods, were made of income and disbursement items and a general review was made of the Company's operations, practices and compliance with applicable statutes, rules and regulations to the extent hereinafter set forth.

An examination of all assets and liabilities contained in the financial statement of this report was made and individual items were verified with relative emphasis depending on size and potential impact on surplus funds as with regards to policyholders.

An examination was also made into the following matters:

Status of Prior Examination Findings
Company History
Charter and Bylaws
Management and Control
Corporate Records
Fidelity Bond and Other Insurance
Territory
Plan of Operation
Market Conduct Activities
Mortality and Loss Experience
Reinsurance
Retirement Plan and Other Insurance
Agreements with Parent, Subsidiaries and Affiliates
Litigation, Contingent Liabilities and Regulatory Action
Statutory Deposits
Dividend(s) to Stockholder
Accounts and Records
Subsequent Events
Financial Statement

They are discussed in detail as follows:

Status of Prior Examination Findings

The previous examination of the Company was made as of December 31, 2000 by examiners of the State of Tennessee. The Report on Examination of the previous examination was dated May 15, 2003, and covered the period from January 1, 1996 through December 31, 2000. There were no comments or recommendations for corrective action noted in the previous examination report.

Company History

The Company was incorporated on December 14, 1982, pursuant to the provisions of the Tennessee General Corporation Act with the name Golden Shield Insurance Company and principal office location at 85 North Danny Thomas Boulevard, Memphis, Tennessee. The initial authorized capitalization of the Company was for a maximum number of one million (1,000,000) shares of common stock at a par value of one dollar ($1.00) per share.

By declaration of its sole incorporator on May 18, 1983, the Company accepted a subscription from Southern Diversified Business Services, Inc. (Southern Diversified), of Memphis, Tennessee, for seven hundred and fifty thousand (750,000) shares of one dollar ($1.00) par value common stock of the Company. Total consideration was two million ($2,000,000) of which seven hundred and fifty thousand dollars ($750,000) was designated as paid in capital and one million two hundred and fifty thousand dollars ($1,250,000) was designated as gross paid in and contributed surplus.

Effective December 13, 1983, the name of the Company was changed from Golden Shield Insurance Company to Golden Security Life Insurance Company.

On June 2, 1986, the Company declared a stock dividend of one (1) share of one dollar ($1.00) par value common stock for each three (3) shares of one dollar ($1.00) par value common stock issued and held by its sole shareholder of record as of the date of declaration. As payment of such stock dividend, the Company transferred two hundred and fifty thousand dollars ($250,000) from gross paid in and contributed surplus to paid in capital.

During 1987 the Company received a total of two hundred and eighty thousand dollars ($280,000) in the form of gross paid in and contributed surplus through two transactions identified as follows:

(1) On March 10, 1987, a thirty thousand dollars ($30,000) common stock cash dividend was paid by Advanced Insurance Services, Inc. (AIS), to its parent, Southern Diversified, who then contributed said amount to the Company as paid in surplus.

(2) On November 12, 1987, a Contingent Surplus Note in the amount of two hundred and fifty thousand dollars ($250,000) cash was contributed by Memphis Hospital Service & Surgical Association and classified as paid in surplus to the Company. This was reclassified as a Surplus Note in the 1993 annual statement.

During 1997, the Company received a total of three million five hundred thousand dollars ($3,500,000) in the form of capital stock and gross paid in and contributed surplus through two (2) transactions identified as follows:

(1) On May 22, 1997, the Company voted to amend its charter to authorize the issuance of one million (1,000,000) additional shares of one dollar ($1.00) par value common stock. This amendment was filed on June 30, 1997. At that time, the Company issued five hundred thousand (500,000) shares in exchange for five hundred thousand dollars ($500,000) from its parent, Southern Diversified.

(2) On June 30, 1997, the Company received a three million dollars ($3,000,000) cash contribution to its gross paid in and contributed surplus from Southern Diversified.

On December 21, 2000, the Company requested approval from the Department of Commerce and Insurance to pay a four million six hundred thousand dollars ($4,600,000) extraordinary cash dividend to its sole stockholder Southern Diversified. On January 9, 2001, the Department of Commerce and Insurance granted approval to pay the aforementioned extraordinary dividend.

On June 13, 2001, the Company received a one hundred fifty thousand dollar ($150,000) cash contribution to its gross paid in and contributed surplus from Southern Diversified. Effective May 14, 2003, the name of the Company was changed from Golden Security Life Insurance Company to Golden Security Insurance Company.

The following schedule constitutes a reconciliation of the Company's common capital stock and gross paid in and contributed surplus for the period of December 14, 1982, the date of its incorporation, through December 31, 2004, the date of this examination:

Transaction Date	Number of Shares	Total Consideration	Paid in Capital	Paid in Surplus	Surplus Note
06/02/83	750,000	$ 2,000,000	$ 750,000	$1,250,000	
06/02/86	250,000	stock dividend	250,000	(250,000)	
03/10/87		30,000		30,000	
11/12/87		250,000		250,000	
12/31/93				(250,000)	$ 250,000
06/30/97	500,000	500,000	500,000		
06/30/97		3,000,000		3,000,000	
12/31/2000					(250,000)
12/31/2001				150,000	
TOTALS	1,500,000	$ 5,780,000	$ 1,500,000	$ 4,180,000	$ 0

The following table depicts certain aspects of the growth and financial history of the Company since its inception according to its annual statements filed with the Department of Commerce and Insurance:

Year	Life Ins. In Force	Total Prem. Income	Policy Benefits & Rsv. Increase	Admitted Assets	Liabilities	Surplus
1983	$-0-	$-0-	$-0-	$1,692,784	$53,127	$889,657
1984	100,623,475	204,563	73,803	2,177,875	144,888	1,282,987
1985	152,878,000	527,371	67,912	2,285,926	177,064	1,358,862
1986	231,147,000	963,464	423,457	2,231,017	260,637	970,380
1987	347,091,000	1,532,551	693,179	2,570,124	458,333	1,111,791
1988	477,972,000	1,982,851	754,532	2,772,179	804,821	967,358
1989	597,712,000	2,497,028	1,624,764	2,855,150	1,059,592	795,558
1990	579,655,000	2,510,212	1,359,589	3,360,506	1,177,654	1,182,852
1991	637,342,000	2,635,790	1,373,151	4,136,303	1,787,653	1,348,650
1992	517,089,000	2,576,396	1,479,021	4,113,313	1,748,756	1,364,557
1993	459,918,000	2,237,658	1,371,052	3,660,297	1,554,789	1,105,508
1994	515,045,000	2,517,809	1,339,113	3,767,421	1,426,069	1,341,352
1995	566,582,000	2,226,633	1,229,932	3,949,635	1,608,962	1,340,673
1996	1,098,174,000	4,128,411	2,019,101	5,611,058	3,202,019	1,409,039
1997	2,292,931,000	8,277,823	4,193,158	9,936,717	3,365,384	5,071,333
1998	2,909,936,000	19,971,465	16,170,191	12,231,819	6,446,627	4,285,192
1999	0	5,814,205	2,983,177	7,803,482	1,076,144	5,227,338
2000	0	0	(14,659)	7,105,961	140,058	5,465,903
2001	0	0	0	2,711,257	49,413	2,661,844
2002	0	0	0	2,819,468	24,504	2,794,964
2003	0	0	0	2,882,700	8,751	2,873,949
2004	0	0	0	2,919,672	11,841	2,907,831

Effective July 1, 1999 and January 1, 2000 the Company transferred all of its insurance business through a 100% assumption reinsurance agreement with Fort Dearborn Life Insurance Company and USAble Life. Refer to "Reinsurance" section of this examination report on page 15 for a more complete description of this transaction.

Charter and Bylaws

Charter

The original Charter was approved on December 13, 1982, by the Department of Commerce and Insurance and was filed and recorded with the Tennessee Secretary of State on December 14, 1982. Said Charter established Golden Shield Insurance Company as a for profit corporation with a perpetual existence. Effective December 13, 1983, the Charter was amended to change the name of the Company from Golden Shield Insurance Company to Golden Security Life Insurance Company. Effective July 16, 1986, the Charter was again amended to delete the original purposes of the Company's existence by substituting the following purposes:

(a) To engage as a principal in the life and health insurance business.
(b) To accept and execute all legal trusts which may be confided to it.
(c) To engage, without limitation, in any lawful transaction incident to or in furtherance of any of the above described businesses.

The Company amended its Charter on June 30, 1997. This amendment increased the number of authorized shares of common stock to two million (2,000,000) having a par value of one dollar ($1.00) per share.

In addition to primary objectives and purposes of the Company, the Charter recites other general and specific powers in detail. These are usual in nature for such companies and are consistent with statute.

The Company amended its Charter on November 29, 2003. This amendment changed the Company's address of the principal office to 801 Pine Street, Chattanooga, Tennessee, 37402, County of Hamilton.

The Company amended its Charter on May 8, 2003. This amendment changed the name of the corporation from Golden Security Life Insurance Company to its current name, Golden Security Insurance Company.

Bylaws

The Bylaws of the Company are such as are generally found in corporations of this type and are consistent with the Charter. They may be amended or repealed by a majority of the entire Board of Directors, unless stockholder approval is required under the provisions of Tenn. Code Ann. § 48-1-402.

On November 29, 2000, the Board of Directors voted to amend and restate the Company's Bylaws as follows:

(1) The Bylaws eliminated outdated or unnecessary provisions and simplified and made them more uniform with other affiliated entities.

(2) The principal office of the Corporation was designated as 801 Pine Street,

Chattanooga, Tennessee, 37402, County of Hamilton.

Management and Control

Ownership and control of the Company at December 31, 2004, belongs to the sole stockholder, Southern Diversified which is wholly owned by BCBST. During the period under examination, the Company has been a member of an insurance holding company system as defined by Tenn. Code Ann. § 56-11-201. The Company's registration statements filed for the years under examination were reviewed for accuracy and presentation with no material exceptions noted. A corporate organizational chart for BCBST, showing the Company's and other affiliates' relationships within the holding company system as of December 31, 2004, is included in this report as an addendum.

Ownership and primary control of the Company is vested in its sole stockholder whose Board of Directors shall meet annually prior to the last day of April, at a time and place to be determined, for the purpose of electing directors. Any other proper business may be transacted at the annual meeting. Special meetings of the stockholder's Board of Directors may be called by a majority of the Board of Directors or shall be called by the President upon the written request of any stockholder(s) who own(s) at least 10% or more of all issued and outstanding shares of Company stock entitled to vote at such meeting. Such written request shall state the purpose or purposes of any proposed special meeting. At any meeting of the stockholder's Board of Directors, a majority of the issued and outstanding shares of the Company entitled to vote, either represented in person or by proxy, shall constitute a quorum necessary to transact business. During this period under review, minutes were reviewed for all nine (9) stockholder meetings.

The Bylaws of the Company state that the business and affairs of the Company shall be managed by its Board of Directors. The Board shall consist of not less than three (3) nor more than seventeen (17) members. Regular meetings of the Board of Directors shall be held each year on dates fixed by the Board of Directors. Special meetings may be called at any time by the President or any two Directors upon notice to all Directors given in accordance with Tenn. Code Ann. § 48-52-203. A majority of the total number of Directors shall constitute a quorum for the transaction of the Company's business, and a majority vote of a quorum of directors present at any meeting shall become an act of the Board of Directors.

During the period under review, there were eight (8) regular meetings and one (1) special meeting of the Board of Directors. The following persons were the duly elected Directors holding office at December 31, 2004:

Name and Address	Principal Occupation*
Vicky Brown Gregg Chattanooga, Tennessee	Chairman of the Board of Directors
David Lee Deal Chattanooga, Tennessee	Treasurer and Chief Financial Officer

Name and Address	Principal Occupation*
Joan Carol Harp Chattanooga, Tennessee	President and Chief Executive Officer

* The principal occupation description for each Director relates to BCBST, the ultimate parent.

The bylaws state that the officers of the Company shall be elected at the discretion of the Board of Directors. These officers shall consist of a Chairman of the Board, a President, a Secretary and a Treasurer. The Secretary and Treasurer may be one person. The Board of Directors may also, at its discretion, appoint administrative officers in addition to those designated above. The following persons were duly elected as officers on May 5, 2004, by the Board of Directors and were serving as such at December 31, 2004:

Name	Title
Vicky Brown Gregg	Chairman of the Board, President and Chief Executive Officer
John Linville Shull	Secretary
David Lee Deal	Treasurer and Chief Financial Officer
Sheila Dian Clemons	Assistant Secretary
Harold Hoke Cantrell, Jr.	Assistant Treasurer
Ronald Ellis Harr	Senior Vice President
Larry Albert Reiners	Administrative Vice President

The Board of Directors may create, from time to time, standing or special committees, as it shall deem necessary or appropriate. The powers and responsibilities of each committee shall be established by the Board of Directors, subject to the Company's charter, bylaws and applicable laws. Members of committees may be directors or other natural persons appointed in accordance with Tenn. Code Ann. § 48-58-206. As of December 31, 2004, the Company had no committees in place.

It is noted the Company has in effect a Power of Attorney naming the Tennessee Insurance Commissioner as its attorney-in-fact pursuant to Tenn. Code Ann. § 56-2-501.

Conflict of Interest Policy

The Company possesses an established conflict of interest policy for its directors, officers and key personnel. Directors, officers and key personnel are required to complete conflict of interest questionnaires on an annual basis and disclose the results to the Company's Board of Directors. This questionnaire is used for all entities within the holding company system. The examiners reviewed the questionnaires completed by the Company's officers and directors for the period under review and determined the questionnaires revealed no conflicts of interest.

Pecuniary Interest

Examination procedures included a review for compliance with Tenn. Code Ann. § 56-3-103. No instances of an officer or director of the Company having a pecuniary interest in the investment or disposition of Company funds were noted by the examiners.

Corporate Records

During the period under examination, there were eight (8) regular meetings and one (1) special meeting of the Board of Directors, and nine (9) meetings of the Company's sole stockholder, Southern Diversified The special meeting of the Board of Directors was called to amend the Company's charter in order to change the name of the Company. The minutes of these meetings for the period under examination were reviewed by the examiners and found to be well written and sufficiently descriptive of the material acts of these respective bodies.

Fidelity Bond and Other Insurance

The Company is a named insured under certain insurance coverages being carried by its ultimate parent, BCBST. The following table is a summary of the various bond and insurance policies that provided the enumerated coverages to the Company at December 31, 2004:

Type of Coverage	Limits of Liability
Commercial Automobile Policy	
Liability	$1,000,000
Uninsured Motorists	1,000,000
Medical Payments	50,000
Commercial General Liability	
General Aggregate	$2,000,000
Products/Completed Operations	2,000,000
Personal and Advertising Injury	1,000,000
Fire Damage	1,000,000
Medical Expense	10,000
Employee Benefits Liability	1,000,000
Umbrella/Excess Liability Policy	
Each Occurrence	$10,000,000
Aggregate	10,000,000
Financial Institution Bond ($100,000 single loss deductible)	$5,000,000
Directors and Officers	$40,000,000
Errors and Omissions	40,000,000

Type of Coverage	Limits of Liability
Workers' Compensation and Employers' Liability	
Workers Compensation	TN Statutory Limit
Employers Liability	$500,000
a. Bodily Injury by Accident	500,000
b. Bodily Injury by Disease	500,000
Aviation Policy	
Hull Coverage	$4,300,000
Liability	100,000,000
Medical Payments	10,000

The bonds and policies affording the aforementioned coverages were inspected and verified to be in-force as of the date of examination. The amount of fidelity coverage maintained by the Company exceeds the minimum as suggested by the NAIC Financial Condition Examiner's Handbook. Said bonds and policies were written by companies licensed to transact business in the State of Tennessee, with one (1) exception. Global Aerospace Insurance Co. was not a licensed insurance carrier or an approved alien or foreign surplus lines carrier in the State of Tennessee as of the date of this examination. Global Aerospace provided the Company coverage through an Aviation Policy.

Territory

As of December 31, 2004, the Company was authorized to transact insurance business in the states of Alabama, Arkansas, Louisiana, Mississippi, Tennessee and Texas. Certificates of authority granted by the foregoing jurisdictions were inspected and found to be in force at both the time of inspection and December 31, 2004. Records for premium taxes and other licenses and fees were inspected for those jurisdictions that issue a certificate that remains in effect until canceled.

Plan of Operation

The Company no longer issues any insurance in the states in which it is authorized. Effective July 1, 1999, the Company transferred all of its business, except its cancer policies, to Fort Dearborn Life Insurance Company by a 100% assumption reinsurance agreement. Also, the Company entered into an Assumption Reinsurance Agreement with USAble Life on December 27, 1999. Effective January 1, 2000, the Company ceded one hundred percent (100%) of all benefits and all obligations and liabilities under its cancer policies. Refer to "Reinsurance" section of this examination report on page 15 for a more complete description of these transactions.

Market Conduct Activities

Advertising

The Company does not actively use the advertising media. They do maintain advertising files as required under Tenn. Comp. R. & Regs., 0780-1-8-.17 and 0780-1-33-.10.

Underwriting:

The Company no longer performs the underwriting of policies.

Forms

Policy forms previously in use were verified as filed with the Department of Commerce and Insurance during prior examinations. However, they are no longer filed since the Company has not written any new business since 1999.

Policyholder Complaints

A complaint register is maintained as required by state statute. A review of Company files indicated that there were no policyholder complaints received during the period of examination.

Privacy

The Company was not subject to Tenn. Comp. R. & Regs., 0780-1-72 because the Company had no policies in force during the period examination. However, upon the issuance of policies in the future, the Company would use a privacy policy similar to its ultimate parent, BCBST, which is already in place.

Anti-Fraud Plan

The Company was not subject to Tenn. Code Ann. § 56-3-111 because the Company had no policies in force during the period examination. However, upon the issuance of policies in the future the Company would use an anti-fraud plan similar to its ultimate parent, BCBST, which is already in place.

Claims

The Company did not have any policies in force and consequently did not have any policyholder claims during the period of examination.

Mortality and Loss Experience

The actual to expected mortality or loss experience on ordinary and group life, including related benefits, as developed from the amounts shown in the Company's

annual statements for the years indicated, were as follows:

Mortality Experience	2000	2001	2002	2003	2004
Ordinary Life					
Net death benefits incurred	($10,000)	$0	$0	$0	$0
Reserves released by death	0	0	0	0	0
Actual death benefit incurred	($10,000)	$0	$0	$0	$0
Expected mortality	$0	$0	$0	$0	$0
Experience ratio		0.0%	0.0%	0.0%	0.0%
Group Life					
Actual death benefit incurred	($34,852)	$0	$0	$0	$0
Expected mortality	0	0	0	0	0
Experience ratio		0.0%	0.0%	0.0%	0.0%

The ratios of losses incurred to premiums earned on group accident and health business for the years indicated were as follows:

Group A&H Loss Experience	2000	2001	2002	2003	2004
Incurred claims	$30,193	$0	$0	$0	$0
Premium earned	0	0	0	0	0
Loss experience ratio		0.0%	0.0%	0.0%	0.0%

The incomplete schedules are due to the Company entering into the 100% assumption reinsurance agreement with Fort Dearborn Life Insurance Company in 1999. See the following section for a more complete description of this transaction.

Reinsurance

The Company entered into an Assumption Reinsurance Agreement with Fort Dearborn Life Insurance Company on June 25, 1999. Fort Dearborn Life Insurance Company was, and currently remains, a licensed foreign life insurer in the State of Tennessee. Effective July 1, 1999, the Company ceded one hundred percent (100%) of all benefits and all obligations and liabilities under its policies except for its cancer policies and those claims in litigation. The agreement contains the standard provisions for insolvency, arbitration and errors and omissions Although this transaction did not qualify as such, this agreement was submitted for approval as a holding company filing 30 days before it was executed in accordance with Tenn. Code Ann. § 56-11-206(2) and Tenn. Code Ann. § 56-11-206(2)(C). It was approved by the Department of Commerce and Insurance shortly

thereafter.

The Company entered into an Assumption Reinsurance Agreement with USAble Life on December 27, 1999. USAble Life was, and currently remains, a licensed foreign life insurer in the State of Tennessee. Effective January 1, 2000, the Company ceded one hundred percent (100%) of all benefits and all obligations and liabilities under its cancer policies. As a result of this transaction, the Company no longer had any insurance policies in force. The Company did not submit this agreement for approval in accordance with Tenn. Code Ann. § 56-10-301, Tenn. Code Ann. § 56-10-302(a)(2) and Tenn. Code Ann. § 56-10-302(c)(1). See the Recommendations Section of this Report for further discussion.

Retirement Plan and Other Insurance

The Company has no employees. All management and administrative services are provided by employees of the ultimate parent corporation, BCBST, and employee benefits are provided by BCBST.

Agreements with Parent, Subsidiaries and Affiliates

The Company is included as a member of an insurance holding company system with seven affiliated entities (see "Organizational Chart" attached as an addendum). The following is a summary of the intercompany agreements and arrangements the Company was involved in during the period under examination:

1) The Company's federal income tax return is consolidated with its parent and includes all affiliates. The Company was added as a participating subsidiary within the terms of the "Agreement for the Allocation of Federal Income Tax Liability and Benefits Among the Members of The BCBST Consolidated Group" prior to this period of examination. Outstanding balances established under this agreement are settled monthly.

2) All management and administrative services are provided to the Company by its ultimate parent, BCBST. Accordingly, all general and administrative expenses are reimbursed to BCBST under an informal cost allocation arrangement. Outstanding balances established under this informal arrangement are settled monthly.

Litigation, Contingent Liabilities and Regulatory Action

From the data made available during the course of this examination, it would appear that there were no matters at law in which the Company was involved during the period under review. The examiners also noted no agreements or pending matters of contingent nature that would materially affect its financial position or operating results at December 31, 2004. It also appears that there was no regulatory action taken against the Company during the period under review by any of the various jurisdictions in which it is licensed.

Statutory Deposits

In compliance with statutory and other requirements, the Company maintains a deposit in Tennessee for the benefit of all policyholders. The following deposit was maintained in Tennessee at December 31, 2004:

Jurisdiction	Description	Par Value	Statement Value	Market Value
Tennessee	Federal Farm Credit Bank, 5.90%, due 1/10/05, held for the benefit of all policyholders	$125,000	$125,121	$125,070
Tennessee	Con Edison AMBAC, 6.625%, due 7/01/05, held for the benefit of all policyholders	$150,000	$149,868	$152,712

The above deposit was verified by the examiners by direct correspondence with the custodian of the deposit.

Dividend to Stockholder

Pursuant to Tenn. Code Ann. § 56-11-206(b) and Tenn. Comp. R. & Regs., 0780-1-67-.17, life insurance companies are allowed to pay extraordinary cash dividends to stockholders as long as the company meets certain minimum requirements of capital and surplus as defined by applicable Tennessee statutes. The Company requested approval from the Department of Commerce and Insurance to pay a four million six hundred thousand dollar ($4,600,000) extraordinary cash dividend to the Company's sole stockholder, Southern Diversified, in a letter dated December 21, 2000. On January 9, 2001, the Department of Commerce and Insurance granted approval to pay the aforementioned extraordinary dividend. This was the only dividend paid to the shareholder during the four (4) year period of examination ending December 31, 2004.

Accounts and Records

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings, and reconciliation of subsidiary ledgers to control accounts. General ledger trial balances were reconciled with corresponding copies of annual statements filed for the period under examination and annual statements filed for the years under examination were reviewed for completeness of disclosure. This review revealed no material omissions.

Accounting records conform to the accounting procedures as established by the NAIC and as defined in the Laws and Rules and Regulations of the State of Tennessee. Said records appear to reflect properly the operations during the period under examination and the status of the Company at the date of examination.

During the period of examination, the Company was granted a waiver by the Department of Commerce and Insurance from filing an annual audited financial statement prepared by an independent certified public accounting firm. The Company is audited by the internal audit department within BCBST. Furthermore, the Company was granted a waiver by the Department of Commerce and Insurance from filing an actuarial opinion during the period of examination due to the fact that the Company had no direct or indirect premiums, policyholders or any outstanding claims liabilities.

Subsequent Events

The Company's Federal Farm Credit Bank bond (CUSIP # 31331RMU6 with a par value of one hundred twenty-five thousand dollars ($125,000) pledged to the Department of Commerce and Insurance matured on January 10, 2005. The Company purchased a Bank One Corp bond (CUSIP # 31331RMU6 with a par value one hundred twenty-five thousand dollars ($125,000) as an equivalent replacement on April 27, 2005.

Financial Statement

There follows a statement of assets, liabilities and a summary of operations as of December 31, 2004, together with a reconciliation of capital and surplus for the period under review, as established by this examination.

Assets

	Ledger Assets	Non-Ledger Assets	Non-Admitted Assets	Net-Admitted Assets
Bonds	$1,956,783	$0	$0	$1,956,783
Cash and Short-term Investments	920,378	0	0	920,378
Investment Income Due and Accrued	31,671	0	0	31,671
Receivable from Parent, Subsidiaries and Affiliates	4,749	0	0	4,749
Net Deferred Tax Asset	6,091	0	0	6,091
Guaranty Funds Receivable or on Deposit	0	0		0
Aggregate Write-ins for Other Than Invested Assets	0	0	0	0
Totals	**$2,919,672**	**$0**	**$0**	**$2,919,672**

Liabilities, Surplus and Other Funds

Aggregate Reserve for Life Contracts		$0
Aggregate Reserve for Accident and Health Contracts		0
Liability for Deposit Type Contracts		0
Policy and Contract Claims:		
Life		0
Accident and Health		0
Interest Maintenance Reserve		3,282
General Expenses Due or Accrued		6,000
Taxes, Licenses and Fees Due or Accrued, Excluding Federal Income Taxes		0
Amounts Withheld or Retained by Company as Agent or Trustee		0
Asset valuation reserve		2,472
Payable to Parent, Subsidiaries and Affiliates		0
Drafts Outstanding		87
Total Liabilities		11,841
Common Capital Stock	$1,500,000	
Gross Paid in and Contributed Surplus	4,180,000	
Unassigned Funds (Surplus)	(2,772,169)	
Surplus as Regards Policyholders		2,907,831
Total		**$2,919,672**

Summary of Operations

Premiums and Annuity Considerations	$0	
Net Investment Income	82,644	
Amortization of Interest Maintenance Reserve	(334)	
Miscellaneous Income	0	
Total		$82,310
Death Benefits	0	
Disability Benefits and Benefits Under Accident and Health Policies	0	
Total		0
General Insurance Expenses	39,251	
Insurance Taxes, Licenses and Fees	2,364	
Total		41,615
Net Gain From Operations		40,695
Federal Income Taxes Incurred		4,376
Net Gain From Operations After Federal Income Taxes		36,319
Net Realized Capital Gains		0
Net Income		$36,319

Capital and Surplus Account

	2001	2002	2003	2004
Surplus as Regards Policyholders, December 31, Previous Year	$6,965,903	$2,661,844	$2,794,964	$2,873,949
Net Income	147,212	45,499	89,895	36,319
Change in Deferred Income Tax	0	0	(21,218)	(10,039)
Change in Non-Admitted Assets	712	(16,074)	10,025	6,049
Change in Surplus Notes	0	0		0
Change in Asset Valuation Reserve	1,346	1,077	283	1,553
Capital Changes: Paid in	0	0		
Surplus Adjustments: Paid in	150,000	0		
Change in Asset Maintenance Reserve	0	0	0	0
Dividends to Stockholders	(4,600,000)	0	0	0
Aggregate Write-Ins for Gains and Losses in Surplus	(3,330)	102,618	0	0
Net Change for the Year	(4,304,060)	133,120	78,985	33,882
Surplus as Regards Policyholders, December 31, Current Year	$2,661,843	$2,794,964	$2,873,949	$2,907,831

Analysis of Changes in Financial Statement and Comments Resulting From Examination

There were no adjustments made to the Company's financial statement as a result of this examination. The balances as reported by the Company in its December 31, 2004 financial statement have been accepted as fairly stated for purposes of this examination.

Comments

Statutory Deposits

The descriptions for par value, statement value and market value of the Con Edison AMBAC bond pledged to the Department of Commerce and Insurance were overstated by approximately one hundred thousand dollars ($100,000) on Schedule E – Part 3 – Special Deposits in the 2004 Annual Statement. However, the Company correctly reported these values on Schedule D, therefore they were not misstated in the Company's financial statements.

Aviation Policy

It was noted earlier in the examination report that Global Aerospace Insurance Co. provided the Company coverage through an Aviation Policy. Global Aerospace was not a licensed insurance carrier or an approved alien or foreign surplus lines carrier in the State of Tennessee as of the date of this examination. The Company should not enter into any additional contracts with Global Aerospace Insurance Company as long as they remain unlicensed and unapproved in Tennessee.

Recommendations

Reinsurance

The Company entered into an Assumption Reinsurance Agreement with USAble Life on December 27, 1999. The Company did not submit this agreement for approval in accordance with Tenn. Code Ann. § 56-10-301, Tenn. Code Ann. § 56-10-302 and Tenn. Code Ann. § 56-10-302(c)(1). In the future, it is recommended that the Company file reinsurance agreements in accordance with the above referenced statutes.

Intercompany Tax Allocation Agreement

As noted previously in the examination report the Company participates in the "Agreement for the Allocation of Federal Income Tax Liability and Benefits Among The Members Of The BCBST Consolidated Group". The Department of Commerce and Insurance records do not indicate that the Company submitted this transaction for prior approval pursuant to Tenn. Code Ann. § 56-11-206(2) and Tenn. Code Ann. § 56-11-

206(2)(C). It is recommended that the Company file this agreement in order to become compliant with the above mentioned statutes.

Management and Service Agreement

All general and administrative expenses are reimbursed to BCBST under an informal cost allocation arrangement based upon services provided. Outstanding balances established under this informal arrangement are settled monthly. It is recommended that the Company adopt a formal written agreement with its, parent, subsidiaries and affiliates for all management, administrative and general services rendered by each participating entity. This agreement should describe the type of qualifying services being provided and specify how these expenses should be settled. Furthermore, it is the opinion of the Examiners that this type of agreement is broader in scope than a cost allocation agreement based on Generally Accepted Accounting Principals noted in Tenn. Code Ann. § 56-11-206(2)(D) and should be filed with the Department of Commerce and Insurance pursuant to Tenn. Code Ann. § 56-11-206(2) and Tenn. Code Ann. § 56-11-206(2)(D).

Letter of Representation

Pursuant to NAIC Examination Procedures, the examiners requested the Company complete a Letter of Representation prior to the completion of the examination. The initial request was made June 16, 2005, with a follow up request on July 7, 2005. The Company responded that it was unable to provide such letter to the examiners prior to the issuance of this report. It is therefore recommended that the Company either comply with this request, or provide the Department of Commerce and Insurance with an explanation as to why it is unable to so.

Conclusion

The customary insurance examination practices and procedures, as promulgated by the NAIC, have been followed in connection with the verification and valuation of assets and the determination of the liabilities of the Company.

In such manner, it was found that as of December 31, 2004, the Company had admitted assets of two million nine hundred nineteen thousand six hundred seventy-two dollars ($2,919,672) and liabilities, exclusive of capital and surplus, of eleven thousand eight hundred forty-one dollars ($11,841). Thus, there existed for the additional protection of the policyholders, the amount of two million nine hundred seven thousand eight hundred thirty-one dollars ($2,907,831) in the form of paid up capital, gross paid in and contributed surplus and unassigned funds (surplus).

The courteous cooperation of the officers and employees of the Company extended during the course of examination is hereby acknowledged.

Respectfully submitted,

Mark E. Jaquish, CFE, CPA
Supervising Examiner
State of Tennessee
Southeastern Zone, NAIC

James T. Pearce, Jr.
Examiner-in-charge
State of Tennessee
Southeastern Zone, NAIC

David N. Bobo
Insurance Examiner II
State of Tennessee
Southeastern Zone, NAIC

Examination Affidavit

The undersigned deposes and says that he has duly executed the attached examination report of the Golden Security Insurance Company, dated July 8, 2005, and made as of December 31, 2004, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Mark E. Jaquish, CFE, CPA
Supervising Examiner
State of Tennessee
Southeastern Zone, NAIC

James T. Pearce, Jr.
Examiner-in-charge
State of Tennessee
Southeastern Zone, NAIC

County Davidson
State Tennessee

Subscribed and sworn to before me
this 15th day of
July, 2005

Helen H. Darsey
(Notary)

Addendum - Organizational Chart

BlueCross BlueShield of Tennessee, Inc.
- Volunteer State Health Plan, Inc. 100%
- GDRG, LLC 99.0%
- Tennessee Health Foundation, Inc. 100%
- Southern Diversified Business Services, Inc. 100%
  - Golden Security Insurance Company, Inc. 100%
  - Group Insurance Services, Inc. 100%
  - USAble Life , Inc. 10%
  - Southern Health Plan, Inc. 100%

BlueCross BlueShield of Tennessee
3200 West End Avenue, Suite 102
Nashville, TN 37203
www.bcbst.com

C. Timothy Gary
General Counsel VHSP, Inc.
Chief Compliance & Risk Officer
Governmental Programs
Telephone: (615) 386-8524
Fax: (615) 386-8509
E-mail: timothy_gary@bcbst.com

July 25, 2005

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Mr. Don Spann, CFE
Insurance Examination Director
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

RE: Financial Condition Examination of Golden Security Insurance Company, Dated December 31, 2004

Dear Mr. Spann:

Please accept this correspondence in response to the Examination Report of Golden Security Insurance Company, dated December 31, 2004. The following responses to recommendations are made pursuant to the provisions of Tenn. Code Ann. Section 56-1-411(d)(1):

Reinsurance

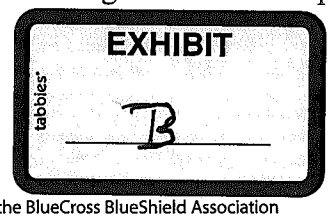
The Company entered into an Assumption Reinsurance Agreement with USAble Life on December 27, 1999. The Company did not submit the agreement for approval in accordance with Tenn. Code Ann. Section 56-10-301, Tenn. Code Ann. Section 56-10-302 and Tenn. Code Ann. Section 56-10-302(c) (1). In the future, it is recommended that the Company file reinsurance agreements in accordance with the above referenced statutes.

Response:

The Company falls below the materiality requirement of the Tennessee reporting statute.

The Company did not file the Reinsurance Agreement ("RA") of December 27, 1999 with USAble Life with the Tennessee Department of Commerce and Insurance ("TDCI") pursuant to T.C.A. Section 56-10-301 because the disposition of assets by the Company in the RA was not material and was therefore not required to be reported, pursuant to T.C.A. Section 56-10-302 (a).

Attached hereto is a copy of the RA and its Exhibit A. Pursuant to Sections 1 and 2 of the RA, USAble Life received certain cancer policies from the Company and USAble Life assumed the Company's liabilities under those policies. The Company received no other consideration from USAble Life. The Company acquired nothing in the RA except



BlueCross BlueShield of Tennessee, Inc., an Independent Licensee of the BlueCross BlueShield Association

surrendering the potential liabilities under the cancer policies. As of the date of the RA, the statutory reserve for the cancer policies was $11,000.

As for any disposition of assets under the RA, the Company gave up the right to receive premium payments from the policyholders of those cancer policies. Exhibit A to the RA contains two lists of policyholders, along with the premiums due by each. The first list contains the names and monthly premiums due for 91 policyholders. The total amount of annual premiums due is $33,120. The second list contains 39 policyholders with $15,317.60 in annual premiums due. Combining the numbers from both lists, under the terms of the RA, the Company disposed of the right to receive $ 48,437.60 in annual premium payments. On an annual accounting basis, the Company would have received $48,437.60 in premium payments in 2000, if it had not executed the RA on December 27, 1999 (and assuming the number of policyholders remained the same).

The threshold for materiality is 5% of the reporting insurer's total admitted assets in its most recent statutory filing with the TDCI. Since Golden Security reported total admitted assets of $7,803,482 to TDCI in 1999, a disposition of assets at least in the amount of $390,174 would be necessary before T.C.A. Section 56-10-302 (a) required that it be reported to TDCI. Since the premium receivables for the entire year of 2000 is far below the 5% threshold, there was no requirement that the disposition of those assets be reported to TDCI under T.C.A. Section 56-10-301.

Intercompany Tax Allocation Agreement

TDCI records do not indicate that the company has submitted its "Agreement for the Allocation Federal Income Tax Liability Benefits Among the Members of the BCBST Consolidated Group", tax sharing agreement for approval in accordance with Tenn. Code Ann. Section 56-11-206(2) and Tenn. Code Ann. Section 56-11-206 (2) (C). . It is recommended that the company file this agreement in order to become compliant.

Response:

Tenn. Code Ann. Section 56-11-206 (2) (D) reads as follows:

All management agreements, service contracts and all cost-sharing **arrangements other than cost allocation arrangements based on generally accepted accounting principles**;

It is our interpretation of the exception contained in the statute set forth above that the tax sharing agreement meets the scope of a cost allocation agreement based on Generally Accepted Accounting Principals and therefore is not required to be submitted for approval to TDCI.

Regardless of the above exception, we will submit the requested document to TDCI for informational purposes.

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Management and Services Agreement

Per audit report it is recommended that the company adopt a formal written agreement with its Parent, subsidiary and affiliates for all management, administrative and general services rendered by each participating entity.

Furthermore, it is the opinion of the examiners that this type of agreement is broader in scope than a cost allocation agreement, based on generally accepted accounting principles noted in Tenn. Code Ann. 56-11-206 (2)(D) and should be filed with the Tennessee Department of Commerce and Insurance, TDCI.

Response:
Company is currently in the process of preparing a management services agreement to cover services described above and will file the agreement with TDCI as soon as completed.

Letter of Representation

The TDCI examiners had requested a letter of representation during the audit. This letter was not completed by July 7 close of examination.

Response:
The company has completed and executed the requested letter of representation and it has been mailed to TDCI.

In addition to the above responses to recommendations contained in the audit, please accept the following response to the comment regarding the Aviation Policy held be the Company:

Aviation Policy

It was noted earlier in the examination report that Global Aerospace Insurance Company provided the Company coverage through an Aviation Policy. Global Aerospace was not a licensed insurance carrier or an approved alien or foreign surplus lines carrier in the State of Tennessee as of the date of this examination. The Company should not enter into any additional contracts with Global Aerospace Insurance Company as long as they remain unlicensed.

Response:

The "carrier" that is listed on the Aviation Policy, Global Aerospace Insurance Company, is a large and well respected Managing Underwriter that underwrites and accepts aviation insurance for a consortium of insurance companies. The use of a Managing Underwriter is a common practice in underwriting aviation and other specialty types of insurance coverage. The participating underwriters are all licensed and rated by AM Best as A+ or A++. Their participation is as follows: National Indemnity Company,

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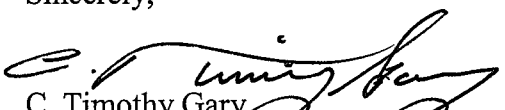
29.75%; Converium Insurance North America, 27.25; American Alternative Insurance Corporation, 27.25%; Tokio Marine & Fire Insurance Company Ltd., 9%; and Mitsui Sumitomo Insurance Company of America, 6.75%.

I trust all of the above meets with your approval. If I can provide any additional information, or be of any assistance, please do not hesitate to contact me at (615) 386-8524.

Sincerely,



C. Timothy Gary
General Counsel VSHP, Inc.
Chief Compliance & Risk Officer, Governmental Programs.

cc: Joan Harp, Pres. Com. Bus. & Est. Mkts.
Steve Coulter, Pres. Gov't. Bus. & Emerg. Mkts
Ron Harr, Sr. V.P., Gov't. Prog.
Bill Young, Sr. V.P., Gen. Counsel & Chief Comp.
David Deal, Sr. V.P. & CFO
Hill Hurst, Dir. & Cont. of Finance

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USAble Life

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December 27, 1999

Larry Reiners, Vice President
Group Insurance Services, Inc.
801 Pine Street
Chattanooga, TN 37402-2555

RE: Assumption Reinsurance Agreement, Cancer Business

Dear Larry:

I'm attaching the fully executed copy of the Assumption Reinsurance Agreement between USAble Life and Golden Security Life for the cancer business. This copy is for your records.

Thank you for your help with this project.

Sincerely,

John S. Anthony, FLMI, CLU, ChFC
Vice President, Administration

JSA/lb

Enclosure

P.O. Box 1650
Little Rock, Arkansas 72203-1650
(501) 375-7200

WH JUL 21 2005

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ASSUMPTION REINSURANCE AGREEMENT

This Assumption Reinsurance Agreement ("Agreement") is made and entered into by and between Golden Security Life Insurance Company, a Tennessee insurance company, Memphis, Tennessee ("Insurer"), and USAble Life, an Arkansas insurance company, Little Rock, Arkansas ("Reinsurer").

For and in consideration of the mutual agreements, understandings and undertakings, the sufficiency of which is hereby acknowledged, the parties agree as follows:

SECTION 1

Cession

The parties are lawfully engaged in conducting life and disability insurance business in the State of Tennessee. Reinsurer desires to assume and purchase from Insurer certain cancer policies issued to Tennessee residents listed on Exhibit A attached hereto (the "Policies") and to reinsure all such risks, and Insurer desires to cede and sell the Policies to Reinsurer and to have such risk reinsured to Reinsurer, upon the conditions, terms and provisions set forth herein.

SECTION 2

Purchase Price

Reinsurer will assume Insurer's liability under the Policies in consideration of the transfer of the Policies, required reserves

and related records. No cession fee shall be paid by Insurer or Reinsurer for assuming the Policies.

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SECTION 3

Reserves

Insurer represents that the statutory amount of the reserves for the Policies as of July 31, 1999, is $11,000, consisting of reserves for unearned premiums in the amount of $8,500, and claims reserves in the amount of $2,500. Accordingly, at the Closing, Insurer will transfer to Reinsurer the sum of $11,000, plus additional statutory reserves accumulated between such date and January 1, 2000, payable in cash by wire transfer to Reinsurer's account pursuant to Reinsurer's instructions.

SECTION 4

Assumption of Risks

As of the Effective Date (as hereinafter defined), Reinsurer shall assume and pay all liabilities under the Policies for any claims diagnosed on and after the Effective Date. Insurer will retain responsibility for all liabilities for any claims diagnosed prior to the Effective Date. Reinsurer shall promptly forward to Insurer all information Reinsurer may obtain regarding any claim where the liability was incurred prior to the Effective Date. Reinsurer shall not be liable for any claims for extra contractual damages, bad faith, punitive damages or other similar claims for acts or conduct which occurred prior to the Effective Date.

Insurer shall indemnify and hold Reinsurer harmless for any loss or expense (including attorneys fees and costs) incurred by Reinsurer in connection with any such claim.

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SECTION 5

Premiums

All premiums due on the Policies prior to the Effective Date shall be retained by Insurer. All such premiums shall be remitted by the Reinsurer to the Insurer forthwith if received by the Reinsurer. All premiums received by Insurer due on and after the Effective Date shall be forthwith remitted to the Reinsurer after such receipt.

SECTION 6

Overlooked Policies

It is intended by this Agreement that Insurer shall cede unto Reinsurer all of its cancer policies written on policy forms number CANC.01 (2-97), except as otherwise provided herein. A listing of the Policies is attached hereto as Exhibit A. Any cancer policy written on such forms which should have been reinsured to Reinsurer, but through inadvertence was not and which is discovered within ninety days from the date hereof, shall be treated as one of the Policies and subject to this Agreement in all particulars.

SECTION 7

Policy Records

All Policies, applications, policy files, cards, reserve calculations, records and materials pertaining to the Policies and required to administer the Policies shall be transferred to Reinsurer and, as of the Effective Date, shall become the property of the Reinsurer. Insurer shall indemnify and hold Reinsurer harmless from any loss (including attorneys fees and costs) incurred by Reinsurer due to Insurer's inability to provide Reinsurer with a copy of any application or other Policy document requested by Reinsurer. Transfer of such records shall be conducted in a cooperative manner between the parties so that an orderly transition on a mutually acceptable date prior to the Effective Date shall be accomplished. All of such records shall be subject to the inspection of Reinsurer at any and all reasonable times. Subsequent to the Effective Date, Reinsurer shall provide Insurer, at Insurer's expense, with copies of any of such records and any information pertaining thereto as shall be necessary for Insurer to properly report and account for the transfer of the Policies in any financial statement filed with any insurance regulatory authority or for the purpose of preparing any state or federal income tax return.

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SECTION 8

Regulatory Approval

This Agreement may be subject to the approval of the Tennessee Insurance Commissioner ("Tennessee Commissioner") and the Arkansas Insurance Commissioner ("Arkansas Commissioner"), (collectively, the "Commissioners"). The parties acknowledge that it may be necessary to comply with the Commissioners' procedural requirements including the filing of a petition, hearing and other formal approval procedures. Insurer shall, in good faith, fully cooperate with the Reinsurer and use its best efforts to properly present the matter to the Commissioners and to obtain their approval.

SECTION 9

Indemnity Reinsurance

The Policies are not the subject of any indemnity reinsurance, coinsurance or other reinsurance agreement.

SECTION 10

Commissions

Insurer shall pay all commissions due or payable to any agent or broker in connection with the Policies prior to the Effective Date.

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SECTION 11

Noncompete

Insurer acknowledges that the Policies being sold and transferred hereunder collectively constitute a valuable property right for which a good, valuable and adequate consideration is received from Reinsurer. Insurer covenants and agrees that it will not for itself or for any other party, directly or indirectly, disclose or permit access or examination of any records pertaining to the Policies to any person who is or may become a competitor of Reinsurer or take any action or do anything calculated or which may result in the cancellation or lapse of any of the Policies or damage to Reinsurer. The parties acknowledge that proof as to the amount of damages which Reinsurer may sustain as a result of the breach of this covenant is difficult or impossible to ascertain. Accordingly, Insurer agrees to pay Reinsurer, as liquidated damages, the sum of $1,000 for each policy lost due to Insurer's breach of this covenant. The obligation of Insurer for liquidated damages shall be without prejudice to Reinsurer's right to pursue any and all other remedies, including an action for further damages and injunction relief on account of the breach of this covenant.

SECTION 12

Liens

Insurer warrants that no person, firm, corporation or other entity has any claim, lien, judgment or right of action, legal or equitable, against or in any of the assets to be transferred to

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Reinsurer under the terms of this Agreement or against the Policies. Insurer shall indemnify and save harmless Reinsurer against and from any claim or lien against said assets or the Policies or any claim or judgment which may exist or be asserted against the assets or the Policies.

SECTION 13

Preauthorized Check Authorizations

As of the Effective Date, Reinsurer shall have all of the rights of the Insurer under outstanding bank draft authorizations from owners of Policies which authorize Insurer to draw on the policyholder's bank accounts to pay premiums on the Policies, insofar as permitted by the laws of Tennessee. Insurer shall cooperate to the extent necessary to change such authorizations to Reinsurer.

SECTION 14

Assumption Certificates

Insurer has heretofore obtained the Tennessee Commissioner's approval of a form of Assumption Certificate evidencing Reinsurer's assumption of the Policies, a copy of which is attached hereto as Exhibit B.

At a time mutually agreed upon by the parties, Reinsurer shall mail to each holder of the Policies an assumption certificate in the form attached hereto as Exhibit B.

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SECTION 15

Brokers

Each of the parties represents to the other that no commission, fee or compensation is due to any broker or other third person by virtue of having negotiated or arranged the transactions herein contemplated. Each party shall be responsible for the fees, costs and expenses of its respective actuaries, attorneys, accountants and consultants.

SECTION 16

Administration of Policies

From the date of this Agreement until January 1, 2000, Insurer shall administer, service and maintain the Policies and all related records and accounts in the usual and customary way consistent with all regulatory requirements.

SECTION 17

Taxes

All taxes and charges attributable to premium payments on the Policies which premium payments are due prior to the Effective Date are the responsibility of and shall be paid by Insurer.

SECTION 18

Insurer's Representations and Warranties

As of the date hereof, and as of December 31, 1999, Insurer represents and warrants to Reinsurer the following:

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(a) Insurer is a Tennessee domiciled stock insurance company duly incorporated and validly existing under the law of the State of Tennessee, is duly qualified in each state in which the Policies have been issued and has all requisite corporate power and authority to carry on its business as it is now being conducted.

(b) The execution of this Agreement and consummation of the transactions contemplated hereby have been approved by all necessary corporate actions.

(c) There have been no material, undisclosed adverse changes in the Policies or in the renewal of the Policies since July 31, 1999.

(d) Insurer's records pertaining to the Policies which will be furnished to Reinsurer have been maintained in a good and businesslike manner and consistent with general business standards and are and will be true and correct in all material respects and fairly represent the condition of the Policies.

(e) Insurer has furnished or will furnish to Reinsurer promptly after the execution of the Agreement true and correct copies of all agents agreements and commission rate schedules with agents to whom commissions are payable in connection with the Policies, and all assignments of such commissions known to Insurer, and Insurer will not modify such existing commission rate schedules or enter into any new agency agreements which will affect the Policies between the date hereof and the closing date without Reinsurer's consent.

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(f) Between the date hereof and the closing date, Insurer will service the Policies in a good and businesslike manner subject to the terms and conditions hereof.

(g) The statutory reserves for the Policies determined as of July 1, 1999, and as of the Effective Date and attributable to the Policies have been or will have been established by Insurer according to prudent statutory and actuarial reserving customs and practices and the amount of such reserves is true and correct in all material respects and adequate to comply with Tennessee insurance law.

(h) The Policies have been issued only in the state of Tennessee.

(i) Insurer represents and warrants to Reinsurer that there is no complaint, claim, cause of action, suit or action at law, whether known or unknown, pending or contingent, against the Insurer by the owner, beneficiary, claimant or any assignee of the Policies. Insurer separately represents and warrants to Reinsurer that there is no claim, right or cause of action, known or unknown, pending or contingent, for punitive or exemplary damages with respect to any of the Policies and agrees to indemnify and hold the Reinsurer harmless from any loss or expense, including attorneys fees, which may be incurred in connection with the defense, negotiation or dealing with any such claim.

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SECTION 19

Reinsurer's Representations and Warranties

(a) Reinsurer is an Arkansas domiciled stock insurance company duly incorporated, validly existing and in good standing under the laws of the State of Arkansas, is duly qualified in each state in which the Policies have been issued and has all requisite corporate power and authority to carry on its business as it is now being conducted.

(b) The execution of this Agreement and the consummation of the transactions contemplated hereby have been approved by all necessary corporate action.

SECTION 20

Defenses

Reinsurer shall be entitled to assert any defense at law or in equity to any suit, claim or action instituted relative to one or more of the Policies, which defense could have been asserted by Insurer had this Agreement not been entered into.

SECTION 21

Rejection of Assumption

In the event a holder of any of the Policies rejects the assumption of his Policy pursuant to this Agreement, Reinsurer shall administer and service such Policy in the usual and customary way on terms mutually agreeable to the parties.

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SECTION 22

Termination of Liability

Any liability of Insurer to Reinsurer under this Agreement shall terminate two years after the Effective Date, except as to any suit that has been filed or threatened prior to the Effective Date.

SECTION 23

Entire Agreement

This Agreement is the entire agreement of the parties and may not be modified except in writing duly executed by the parties.

SECTION 24

Effective Date

Subject to the terms and conditions of this Agreement and the approval of the Commissioners, if necessary, this Agreement shall be effective as of 12:01 a.m., on January 1, 2000 ("Effective Date").

SECTION 25

Closing

This Agreement shall be closed at 10:00 a.m., December 1, 1999, in the office of the Insurer in Memphis, Tennessee, or at such other time and place as the parties may mutually determine.

Dated this _____ day of November, 1999.

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GOLDEN SECURITY LIFE INSURANCE COMPANY

By: _____

ATTEST:

_____
Secretary

USABLE LIFE

By: _____
James B. House
President and CEO

ATTEST:

_____
Mark Langston
Assistant Secretary

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USAble Life

CERTIFICATE OF ASSUMPTION

Policyholder Name: «insname1»

Address: «Address»
«City», «State» «Zip»

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Company Examinations

Re: Policy # «polno»

On January 1, 2000, Golden Security Life Insurance Company entered into a Reinsurance Agreement with USAble Life of Little Rock, Arkansas. Under this agreement, USAble Life assumed responsibility for the liabilities of your policy listed above.

The effect of this agreement on you is that USAble Life is now the insurer of your policy and is responsible for paying all claims due under your policy except claims incurred prior to January 1, 2000.

Nothing contained in this endorsement will vary, alter, waive or extend any of the terms, conditions, agreements or limitations of the policy, other than as specifically stated herein.

All service or claim requests concerning the policy should now be addressed to:

USAble Life
P.O. Box 1650
Little Rock, AR 72201-1650
1-800-648-0271

You may reject this assumption. If you wish to reject this reinsurance, you have sixty (60) days after receipt of this notice to file written notice with USAble Life at the above address.

If you reject the assumption, your old policy will remain in effect with Golden Security Life Insurance Company.

Please attach this notification to your policy.

USAble Life

James B. House

James B. House, President and CEO

Attest:

Mark Langston

Mark Langston, Assistant Secretary

IMPORTANT

THIS CERTIFICATE SHOULD BE ATTACHED TO YOUR POLICY